

CAFTA: Potential for Louisiana's Prosperity

prepared for

**Port of New Orleans
Greater New Orleans, Inc.
World Trade Center of New Orleans
and
City of New Orleans**

by

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***Dr. Richardson is solely responsible for the analysis and findings included within this report.**

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I. Introduction

Trade within the United States and with countries outside the United States is a common and accepted practice. People in Louisiana never question buying a book from Amazon.com or a shirt from L.L. Bean or hunting equipment from the Bass Pro Shop. We purchase cars made in Japan or Germany or Sweden; we purchase shoes made in Italy; we buy French wine; we purchase fruits and vegetables grown in many countries; we purchase coffee grown in Central and South American countries; and, we purchase oil produced and oil byproducts made in foreign nations. Similarly, Louisianans sell products that they make to persons living in foreign countries. Agricultural producers sell cotton, rice, soybeans, and other crops to other countries. The chemical industry exports its commodities around the world. Movies made in Louisiana are exported around the world. Tourism requires visitors from other states and other countries. Trade is a fact of life in today's global economy.

This transfer of goods from foreign countries to the US and from the US to foreign countries and the wealth that it creates in all countries requires an open and unhindered trade policy. Since World War II the most consistent and bipartisan economic policy in the United States has been open and unhindered trade around the world. The Caribbean Basin Initiative, an agreement first signed in 1983 and then extended in 1990, promoted incentives for private investment in Caribbean countries, including Central American countries. A major part of this agreement was that products produced in the Caribbean countries would be duty free in the United States. In 1994 the United States, along with Canada and Mexico, created the North American Free Trade Agreement (NAFTA), a single market in which goods and services could move unhindered by tariffs, quotas, or other governmentally imposed rules and regulations.

Trade with other countries provides economic opportunities for citizens and businesses in the United States and provides potential for a state, such as Louisiana, to prosper from increased business activity. Trade augments the state's economy by providing opportunities for its businesses to export goods to markets outside the boundaries of the United States, and trade augments the state's economy by increasing the business associated with the ports and port-related businesses necessary to facilitate the trade.

The Port of New Orleans and the other ports in Louisiana are important economic connections in the state. They facilitate the transporting of goods from Louisiana and other states to the rest of the world and the transporting of goods from the rest of the world to Louisiana and other states. No economic agent stands alone in the global economy. The ports need domestic producers to provide products that are marketable on the world market; similarly, the ports need foreign producers to provide products that are necessary ingredients in the production process of other goods in this country or are marketable to final consumers in this country. The state's economy receives a boost in overall economic activity because of the additional trade opportunities.

The proposed Central American Free Trade Agreement (CAFTA) between the United States and Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua will reduce tariffs and other governmentally imposed regulations relating to trade between the United States and these countries.¹ More than 80 percent of US exports of consumer and industrial products to Central America will be duty-free immediately upon acceptance of the Agreement, and 85 percent will be duty-free within five years. US exports such as information technology products, agricultural and construction equipment, paper products, chemicals, and medical and scientific equipment will be duty-free immediately. More than half of the current US farm exports to Central America will become duty-free immediately. These farm products include high quality cuts of beef, cotton, wheat, soybeans, key fruits and vegetables, processed food products, and wine. A summary of CAFTA is presented in Appendix A in a document provided by the Office of the United States Trade Representative.

All remaining tariffs will be eliminated within ten to fifteen years. US farm products that will benefit from this increased market access includes pork, beef, poultry, rice, fruits and vegetables, corn, processed products, and dairy products. The purpose of the agreement is to promote trade between the United States and the Central American countries and to make sure that US companies are competitive with companies from other countries when selling commodities to Central America. Specific tariff reductions for agricultural products are presented in Appendix B.

CAFTA is projected to influence positively the ports of Louisiana, the regional economies associated with the ports, and the Louisiana economy if, as it is expected, exports from the United States to these countries are increased. This study will examine the economic impact of increased activity at the various ports in Louisiana due to expanded trade with Central America and increased exports from Louisiana to Central America because of CAFTA.

¹ Trade Facts, Office of the United States Trade Representative (www.ustr.gov).

II. Central American Trade and Economic Activity in Louisiana

Louisiana economic activity associated with expanded trade with Central America revolves around increased commodities coming through the various Louisiana ports and the increase in exports from Louisiana businesses to Central American consumers, businesses, and governments. Current economic activities in Louisiana related to trade with Central America suggest the economic base from which growth can occur. These current economic activities will include the handling of commodities by the various Louisiana ports and the exports that are currently shipped to Central America by Louisiana companies.

Louisiana Port Activity and Central American Trade

In 2002 ports in Louisiana handled 4,608,092 tons of bulk commodities and 244,100 tons of non-bulk commodities going to Central America from the United States. Louisiana ports in 2002 handled 149,518 tons of bulk commodities and 192,034 tons of non-bulk commodities coming from Central American countries to the United States. The breakdown by the various Louisiana ports is illustrated in Table 1.

Table 1
Exports to and Imports from Central America
Through Louisiana Ports, 2002
(tonnage)

Exports to Central America Through Louisiana Ports		
Louisiana Port	Bulk Cargo	Non-bulk Cargo
Baton Rouge	410,275	83
Lake Charles	1,100	24,916
New Orleans	1,529,290	219,057
South Louisiana	2,667,427	46
All Ports	4,608,092	244,100
Imports from Central America Through Louisiana Ports		
Louisiana Port	Bulk Cargo	Non-bulk Cargo
Avondale	1,665	0
Baton Rouge	71,602	0
Lake Charles	0	0
New Orleans	54,003	192,034
South Louisiana	22,247	0
All Ports	149,518	192,034

Source: Data from Port of New Orleans

The Port of New Orleans dominated the trade with Central America with respect to non-bulk commodities, both in terms of exports from the United States to Central America and

imports from Central America to the United States. The Port of South Louisiana and the Port of New Orleans dominated the trade with Central American with respect to the export of bulk commodities from the United States to Central America. The Port of Baton Rouge and the Port of New Orleans were the major ports in handling bulk imports from Central America to the United States.

In perspective of total port business the percent of business with Central American countries for selected Louisiana ports is presented in Table 2. Louisiana ports ship a great deal more commodities from the United States to Central American countries than vice versa. The Port of New Orleans exports about 5.1 percent of its total export trade to Central American countries. With respect to its import business slightly less than 1.0 percent will come from Central American countries. This import is primarily coffee beans.

Table 2
Percent of Louisiana Port Business with Central American Countries

Louisiana Ports	Percent of Total Exports Going to Central American Countries	Percent of Total Imports Coming from Central American Countries
South Louisiana	4.2%	0.7%
New Orleans	5.1%	0.9%
Baton Rouge	6.4%	0.5%
Lake Charles	0.1%	0.0%

Source: Port of New Orleans

Port activity is an ingredient in the overall economic vitality of the state and the metropolitan area in which the port is located. The Port of New Orleans and the Port of South Louisiana are both located in the New Orleans Metropolitan area, while the Port of Baton Rouge is located in the Baton Rouge Metropolitan area and the Port of Lake Charles is in the Lake Charles Metropolitan area. Port activity is measured by the tonnage going through the port

Exports from Louisiana to Central America

The value of exports and percentage change from year to year to Central America by Louisiana businesses for 1998 through 2003 are listed in Table 3. These commodities represent goods that were produced by Louisiana workers and Louisiana businesses and then sold to consumers, businesses, and/or governments in Central America. In 1998 Louisiana businesses exported \$587.3 million of commodities to Central American countries; in 1999 this amount grew by 17.1 percent to \$687.9 million; by 2000 Louisiana companies exported \$785.4 million of commodities to Central American countries or a growth of 14.2 percent over 1999; in 2001 exports declined to \$773.1 million or a decline of 1.6 percent; exports rebounded in 2002 to \$776.3 million or a growth rate of 0.4 percent; and, finally, in 2003 exports to Central American countries from Louisiana grew by 2.0 percent to \$792.0 million. From 1998 to 2003 the value of exports from Louisiana businesses to Central American countries grew overall by almost 35.0 percent. This represents an average growth per year of about 7 percent.

Table 3
Louisiana Exports to Central America: 1998 and 2000
(Millions of dollars and percentage change)

Countries	Years					
	1998	1999	2000	2001	2002	2003
Costa Rica	\$172.0	\$140.3	\$132.9	\$168.6	\$224.8	\$194.2
El Salvador	\$117.9	\$179.4	\$244.6	\$210.5	\$147.8	\$176.0
Guatemala	\$143.3	\$161.0	\$166.2	\$172.8	\$224.7	\$214.0
Honduras	\$107.6	\$151.1	\$200.7	\$154.2	\$123.4	\$136.4
Nicaragua	\$46.5	\$56.1	\$52.0	\$67.0	\$55.6	\$72.4
Total	\$587.3	\$687.9	\$786.4	\$773.1	\$776.3	\$792.0
Percent Change from Previous Year						
Costa Rica	--	(18.4%)	(5.3%)	26.9%	33.3%	(13.6%)
El Salvador	--	52,2/5	36.3%	(13.9%)	(29.8%)	19.1%
Guatemala	--	12.4%	(3.6%)	11.3%	30.0%	(4.8%)
Honduras	--	40.4%	32.8%	(23.2%)	(19.0%)	9.7%
Nicaragua	--	20.6%	(7.3%)	28.8%	(17.0%)	30.2%
Total	--	17.1%	14.2%	(1.6%)	0.4%	2.0%

Source: MISER Axes Web: State Export by HS Database, data from Census Bureau, Foreign Trade Division

The specific commodities that are exported from Louisiana businesses to Central American countries are listed in Table 4 by Louisiana port facilitating the movement of the goods from Louisiana to the various countries in Central America. Listing the various commodities exported by Louisiana businesses suggest the reach of trade within a state. Certain products stand out, including agricultural products such as rice and soybeans, chemicals, petroleum products and plastics, and paper and paperboards; however, other products such as rugs and coverings, automobile parts, apparels, and canned foodstuff also are exported from Louisiana businesses to Central American countries. This listing illustrates the pervasiveness of international trade throughout the Louisiana economy.

Major products by tonnage exported from Louisiana ports are listed in Table 5. The bulk commodities listed in Table 5 include grains and flour products, rice, and soybeans and these commodities make up 81 percent of all bulk cargo exported from Louisiana companies to Central American countries. These exports come from Louisiana farms. The non-bulk cargo listed in Table 6 includes chemicals, fabrics (including raw cotton), grains and flour products, paper and paperboard, petroleum products, and plastics and these commodities make up 62 percent of all non-bulk cargo exported from Louisiana companies to Central American countries. Companies in Louisiana manufacture these products for export. These are the farms and companies that will certainly have an opportunity to increase their export business with Central American countries once all parties accept CAFTA.

Table 4
Commodities Exported from Louisiana Ports to Central American Countries

Ports	Commodities Exported to Central American Countries
Baton Rouge	Fish meal, grain and flour products, nitrogen fertilizers, pet and animal feed, potassium chloride, rice, SOD CMP, Soybean and related products, and Urea Basic Fertilizer
Lake Charles	Benezoid chemicals, grains and flour products, rice, soybeans and related products, vegetable oil, vegetables
New Orleans	Abrasives, adhesives, agricultural machinery, air conditioners, aldehydes, aliphatic hydrocarbons, aluminum foil, pipes, ware and buildings, and wire, amino acids, ammonia, apparels, appliances, asphalt and calcined alumina, auto parts, auto and truck tires and tubes, automobiles, bags, beer and ale, belts and belting, benzenoid chemicals, boards, boats and parts, bone, carbon and lamp black, books and periodicals, boxes and cartons, brushes and brooms, building materials, bulk potassic fertilizers, buses and campers, buttons, cacyanide phosphates, candles, candy and jam, canned foodstuff, carbon powder, cellulose, castor, corn and coconut oil, cesilum, chains, cheese, chlorine and iodine, cocoa beans and products, coffee, concrete, construction and building equipment, cordage and twine, copper and brass sheets, drilling muds, duplicating and office machines, dyes, electric and electronic products, electrical cableware, engines, fan blowers, fiberglass products, footwear, fruits, furniture, generators, glassware, glycol derivatives, grains and flour products, grocery products, hydrocarbons, handbags, household appliances, kerosene, logs and lumber, machinery parts, magnesium compounds, medical equipment and supplies, menswear, metal working, mineral oil, inorganic compounds, organic acids, paper and paperboard, urea resins, petroleum products, plastics, poultry, rice, rubber and rubber additives, SOD CMP, Sodium compounds, soybeans and related products, synthetic resins, toilet preparations, toluene, toys, TV equipment, unclassified chemicals, vegetables
South Louisiana	Castor, Corn, and Coconut Oil, gasoline and aviation fuel, grain and flour products, grocery products, petroleum additives, rice, soybeans and related products, vegetables
Westwego	Grain and flour products, rice, soybeans and related products, tallow and animal oil

Source: Port of New Orleans

Table 5
Major Exports From Louisiana Companies to Central America
(tonnage)

Commodities	Port of Baton Rouge	Port of New Orleans	Port of South Louisiana	Total
Bulk Commodities				
Grains and Flour Products	96,519	537,157	1,827,450	2,461,126
Rice	214,426	87,506	202,581	504,513
Soybeans	79,802	157,412	546,162	783,376
Non-bulk Cargo				
Chemicals		70,265		70,265
Fabrics, including raw cotton		38,481		38,481
Grains and Flour Products		10,777		10,777
Paper and Paperboard		20,047		20,047
Petroleum Products		4,545		4,545
Plastics		6,847		6,847

Source: Port of New Orleans

Specific exports from Louisiana companies to Central American countries in excess of \$1 million average annual value from 1998 through 2003 are illustrated in Table 6. These specific exports are dominated by agricultural products, including wheat, corn, rice, and soybeans. Wheat, corn, and rice were exported from Louisiana to all five countries associated with CAFTA. Soybeans were exported to Costa Rica and El Salvador. Bovine and chicken products were exported to Guatemala. These exports indicate products that can be increased by increased trade opportunities with Central America or that can be adversely affected if US trade status with Central America deteriorates relative to other countries.

Table 6 also suggests products that exhibit growth potential. Table 6 is based on very specific product specifications. Chemicals are not classified as a broad group. Instead, chemical products are very narrowly defined. However, if the very specific products are grouped together, chemicals become a much larger part of the trade process. The same is true for paper and paper products. Several paper products are illustrated in Table 6; however, if all paper products are aggregated, this industry is also highlighted as an industry that could take advantage of a more hospitable trading environment. In Table 7 chemicals and paper products are illustrated for the Central American countries from 1998 through 2003.

Average annual chemical exports from Louisiana companies to Central American countries were \$57.1 million. Average annual paper and paper product exports from Louisiana companies to Central American countries were \$20.63 million over the time period of 1998 through 2003. These exports indicate products that can be increased by increased trade opportunities with Central America or that can be adversely affected if US trade status with Central America deteriorates relative to other countries.

Table 6
Average Annual Value of Exports in excess of \$1 Million, 1998 through 2003

Products	Countries				
	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
Bovine Meat			yes		
Chicken Cuts			yes		
Durum Wheat	yes			yes	
Wheat (not durum) and Meslin	yes	yes	yes	yes	yes
Corn (not seed corn)	yes	yes	yes	yes	yes
Rice	yes	yes	yes	yes	yes
Soybeans	yes	yes			
Flours				yes	
Animal Fat		yes	yes		
Soybean Oil			yes		yes
Sunflower Seed Oil			yes		
Malt Extract			yes		
Residues		yes	yes	yes	yes
Oil (not crude)	yes	yes	yes	yes	
Cyclic Amides	yes				
Fertilizers	yes				
Herbicides	yes		yes	yes	
Mixed Alkylbenzenes		yes		yes	
Polyethylene	yes		yes		
Polymers of ethylene	yes		yes		
Butadiene Rubber	yes				
Kraftliner		yes	yes		
Paper Products			yes		
Cotton		yes			
Woven Fabric		yes		yes	
t-shirts		yes		yes	
Parts of Garments		yes		yes	
Underwear				yes	
Structures, Iron and Steel			yes		
Motor Vehicles Parts				yes	

Source: MISER Axes Web: State Export by HS Database, data from Census Bureau, Foreign Trade Division

Table 7
Average Annual Value of Chemical and Paper Exports
To Central American Countries from Louisiana
(1998 through 2003)

Countries	Chemicals	Paper and Paper Products
Costa Rica	\$18.22	\$6.89
El Salvador	\$12.15	\$5.78
Guatemala	\$17.32	\$5.56
Honduras	\$7.33	\$2.06
Nicaragua	\$2.08	\$0.34
Total	\$57.10	\$20.63

Source: MISER Axes Web: State Export by HS Database, data from Census Bureau, Foreign Trade Division

Regions Within State With Connections to CAFTA Prosperity

Trade is an evolving economic activity. Companies quickly learn the market as trade rules change over time. All areas of the state could eventually prosper from the acceptance of CAFTA; however, certain areas with major economic activities associated with the commodities being exported to Central America and certain areas with ports that act as the intermediary between the exporters in the United States and importers in Central American and the exporters in Central American and importers in the United States should immediately feel the increased economic impact. Parishes and regions within Louisiana that can quickly improve their economic activity because of increased trade to Central America are presented in Table 8. Maps C.1 through C.4 in Appendix C show the parishes with cotton, rice, and soybean production and the chemical corridor.

The chemical industry is concentrated in the metropolitan areas of Baton Rouge, Lake Charles, and New Orleans. There are almost 40,000 employees in the State of Louisiana working in chemicals, petroleum refining, and plastics. Over 76 percent of these workers are located in Baton Rouge, Lake Charles, or New Orleans Metropolitan areas. Employment is obviously concentrated in several of these parishes within a metropolitan area. The employment concentration is in Ascension, Calcasieu, East Baton Rouge, and St. Charles parishes. The second layer of concentrated employment in the petroleum/chemical industry is in Jefferson, Plaquemines, St. James, St. John the Baptist, and West Baton Rouge parishes.

The petrochemical industry has substantial payrolls. The Baton Rouge metropolitan area has an annual payroll of close to \$600 million from the chemical industry alone—that is, not including the refineries. In the Lake Charles metropolitan area over 5,000 persons are employed in the chemical sector with a payroll of just over \$290 million. The petrochemical sector is also a high multiplier sector—that is, these industries have significant economic impacts on other industries within the state.

Agricultural production for cotton, rice, and soybeans is distributed throughout the state. The top five producers of these commodities are as follows:

Cotton: Catahoula, Franklin, Madison, Morehouse, and Tensas

Rice: Acadia, Evangeline, Jeff Davis, Morehouse, and Vermilion

Soybeans: Concordia, East Carroll, Madison, Pointe Coupee, and St. Landry.

Cotton production is concentrated in the northeastern part of the state; rice production is concentrated in the south central and southwestern part of the state though one of the top five producing parishes is in northeastern Louisiana; and, soybean production is focused in the northeastern and central part of the state.

The relative significance of animal and crop production in Louisiana is illustrated in Table 9. Sugarcane revenues in 2002 represented 20.8 percent total farm revenues. Cotton, corn, rice, and soybean revenues represented 31.2 percent of Louisiana farm revenues. Poultry and eggs make up 17.3 percent of farm revenues, while cattle and calves make up 8.9 percent of farm revenues. Farm revenues are diversified. All crops and all animal production are important economic players. Domestic and international markets for all farm commodities and farm poultry and animals are essential to the success of these companies and the welfare of the communities in which they are located.

Table 8
Parishes of State Producing Commodities Exported to Central America
And Facilitating Trade Between United States and Foreign Countries

Commodities Exported to Central America				Ports Facilitating Trade
Parishes in which these commodities are Produced				
Chemicals	Cotton	Rice	Soybeans	
Ascension	Avoyelles	Acadia	Acadia	Port of New Orleans
Calcasieu	Bossier	Allen	Allen	Jefferson
East Baton Rouge	Caddo	Avoyelles	Avoyelles	Orleans
Iberville	Caldwell	Beauregard	Beauregard	Plaquemines
Jefferson	Catahoula	Calcasieu	Bossier	St. Bernard
Orleans	Concordia	Caldwell	Caddo	St. Charles
St. Bernard	East Carroll	Catahoula	Calcasieu	St. James
St. James	Evangeline	Concordia	Cameron	St. John the Baptist
St. John the Baptist	Franklin	East Carroll	Caldwell	St. Tammany
St. Charles	Grant	Evangeline	Catahoula	
West Baton Rouge	Madison	Jeff Davis	Concordia	Port of South Louisiana
	Morehouse	Lafayette	East Carroll	Jefferson
	Natchitoches	Madison	Evangeline	Orleans
	Ouachita	Morehouse	Franklin	Plaquemines
	Pointe Coupee	Natchitoches	Grant	St. Bernard
	Rapides	Ouachita	Iberville	St. Charles
	Richland	Pointe Coupee	Jeff Davis	St. James
	St. Landry	Rapides	Lafayette	St. John the Baptist
	Tensas	Richland	Madison	St. Tammany
	West Carroll	St. Landry	Morehouse	
		St. Martin	Natchitoches	Port of Baton Rouge
		Vermilion	Ouachita	Ascension
			Pointe Coupee	East Baton Rouge
			Rapides	Livingston
			Red	West Baton Rouge
			River	
			Richland	
			St. Landry	
			St. Martin	
			Tensas	
			Vermilion	
			West Carroll	
			West Feliciana	

Source: Louisiana Agricultural Statistics Service, LSU Agriculture Center and Chemical Employment, County Business Patterns, 2001.

Table 9
Cash Receipts from Louisiana Farms and Ranches, 2002
(millions of dollars)

Crop/Animal Production	Cash Receipts	Percent of Total
Sugarcane	\$368.9	20.8%
Poultry/eggs	\$306.6	17.3%
Cotton	\$158.7	8.9%
Cattle & Calves	\$157.2	8.9%
Corn	\$152.1	8.6%
Soybeans	\$123.7	7.0%
Rice	119.3	6.7%
Dairy Products	\$73.8	4.2%
Sorghum	\$32.9	1.9%
Aquaculture	\$30.8	1.7%
Other Commodities	\$249.1	14.0%
Total	\$1,773.2	100.0%

III. CAFTA and the Economic Potential for Louisiana

Businesses, workers, and communities typically benefit from the global market. These benefits include the choice of goods and services to buy; the international market in which to sell goods and services made in Louisiana; the ability to work to produce goods and services for the global market; and, communities from the economic vitality associated with companies thriving in the communities, citizens having jobs, and tax receipts being available for public services. Just as in any other economic adjustment there can be industries and communities that have to adjust what they are currently producing and/or how they are currently producing their commodity.

The benefits to open and unhindered trade can be quantified by asking what is the economic impact of augmenting the state's exports to Central American countries or, from another perspective, what would happen if the US trade position with Central American countries deteriorates relative to other countries and the state loses some of all of its current exports to Central America. The economic impact is measured by overall business sales, household earnings, and the number of jobs created. Given this information, it is possible to estimate state and local tax receipts associated with enhanced trade with Central America or reduced trade with these countries.

Measuring the Economic Impact

This economic impact includes the direct effects of additional exports being sold abroad and additional business for the Louisiana ports and the indirect and induced effects of these business activities. What are these multiplier effects and how are they measured? Consider this example: farming production increases by 10 percent to provide exports to the Central American countries. The Louisiana economy is a large economic pond. A rock labeled “10 percent increase in farm production” is dropped into this pond.. This rock will make a large splash as it hits the economy. It will be injecting a huge amount of new business sales, household earnings, and jobs into the State’s economy. This is what is referred to as the direct effect of the new plant on the economy.

However, that rock will also cause ripples in the pond to its outer edges. For example, employees on the farms will spend their paychecks at grocery stores, service stations, department stores, eateries, etc. This will create new income for employees of those establishments, who will then spend their new income at other establishments, etc., etc. Too, the farms will be purchasing supplies, utilities, materials, etc., from other Louisiana firms which also creates new sales, earnings, and jobs at those establishments, etc., etc. Many different persons and businesses will be affected by the direct impact of the increase in farming production in Louisiana. These are the so called “**multiplier effects**” of the new auto plant.

It is also important to appreciate that these “**multiplier effects**” work in both directions. So if CAFTA is not approved and US companies are at a competitive disadvantage with companies from other countries, Louisiana exports to Central American countries can diminish. This reduction in exports from Louisiana companies to Central American countries and the drop in port activity will be a large rock being dropped into the pond. This rock will still cause ripples in the pond. This time, though, the economic ripples are not positive in terms of additional jobs and earnings being created; rather, the economic ripples will be negative—namely, jobs will be destroyed and earnings will fall.

There is, fortunately, a handy tool for estimating these multiplier effects---an **input-output (I/O) table**. The Bureau of Economic Analysis (BEA) of the US Department of Commerce will construct I/O tables for any geographic region. The BEA is the same agency that generates gross domestic product, unemployment rates, consumer price indices and many other data series for the country. Using an I/O table, we can estimate the economic impact of the increased farming activity on: (1) **sales** at Louisiana firms; (2) **household earnings** of Louisiana citizens; and (3) **jobs** for Louisianans. These estimates are also distributed across the economy in terms of the various sectors of the economy that will be affected, such as wholesale and retail trade, construction activity, transportation and utilities, business and personal services, financial services, manufacturing activities, and other industrial classifications.

Estimated Economic Impact: CAFTA Approved

CAFTA is approved. Tariffs are immediately reduced for almost 80 percent of US exports to Central American countries are duty-free. Key exports such as information technology, agricultural and construction equipment, paper products, chemicals, and medical and

scientific equipment are immediately duty-free. More than one-half of US farm exports are immediately duty-free, including high quality cuts of beef, cotton, wheat, key fruits and vegetables, processed food products, and wine. Tariffs on other commodities such as poultry and rice will be phased out.

Estimated increases in specific exports and port activity are listed in Tables 10 and 11, along with the projected economic impact on the Louisiana economy that these activities will have. Table 10 illustrates the economic impact associated with a low estimate of the increase in exports and port activity. Table 11 illustrates the economic impact associated with a higher estimate of the increase in exports and port activity. The low estimate represents about a 8.0 percent increase in exports from Louisiana to the Central American countries. The low estimate represents only 3.7 percent of the nationwide increase in agricultural exports to Central America as projected by the American Farm Bureau. The high estimate represents about a 16 percent increase in Louisiana exports to Central American countries. The high estimate represents 7.3 percent of the nationwide agricultural exports that will be shipped to Central America due to CAFTA as projected by the American Farm Bureau.² The estimates vary from industry to industry depending on current activity in Central America.

The estimated impact of CAFTA on the Louisiana economy varies from new business sales of \$169.3 million to \$338.6 million, household earnings of \$38.6 million to \$77.2 million and new jobs of 1,385 to 2,769 new jobs. CAFTA will have a positive impact on business activity, household earnings, and jobs in Louisiana in poultry production, cotton, rice, and soybean production, paper product manufacturing, the manufacturing of chemicals and plastics, and the sale of major industrial equipment. These industries will, in turn, have a positive economic impact on the community in which they exist and for the state as a whole.

² American Farm Bureau Backs Central American Trade Pact, internet March 23, 2004.

Table 10
Estimated Impact of Increased in Louisiana Exports
To Central American Countries Due to CAFTA
LOW Estimate

Export Industry	Estimated Increase in Exports	Economic Impact Due to Increased Export Activity (sales and earnings in millions of dollars)		
		Sales	Earnings	Jobs
Poultry	\$7.0 million	\$18.1	\$4.1	179
Cotton	\$6.0 million	\$10.7	\$2.7	138
Rice	\$12 million	\$22.3	\$4.7	269
Soybean	\$8 million	\$15.9	\$3.6	155
Paper Products	\$5 million	\$11.4	\$2.2	72
Chemicals	\$10 million	\$22.6	\$5.0	112
Plastics	\$5 million	\$11.9	\$2.5	57
Machinery	\$10 million	\$17.9	\$5.1	154
Total Exports	\$62 million	\$130.8	\$30.0	1,136
Port Activities*	\$20 million	\$38.5	\$8.5	250
Total	\$82 million	\$169.3	\$38.6	1,385

*includes port activities and companies working at port to move cargo and companies providing other services to trade coming through ports.

Source: author and Input-Output Model, US Department of Commerce.

Table 11
Estimated Impact of Increased in Louisiana Exports
To Central American Countries Due to CAFTA
HIGH Estimate

Export Industry	Estimated Increase in Exports	Economic Impact Due to Increased Export Activity (sales and earnings in millions of dollars)		
		Sales	Earnings	Jobs
Poultry	\$14.0 million	\$36.2	\$8.2	357
Cotton	\$12.0 million	\$21.4	\$5.5	275
Rice	\$24 million	\$44.7	\$9.4	538
Soybean	\$16 million	\$31.8	\$7.3	310
Paper Products	\$10 million	\$22.9	\$4.5	144
Chemicals	\$20 million	\$45.1	\$10.0	224
Plastics	\$10 million	\$23.8	\$4.9	113.0
Machinery	\$20 million	\$36.7	\$10.1	308
Total Exports	\$124 million	\$261.6	\$77.2	2,269
Port Activities*	\$40 million	\$77.0	\$17.3	500
Total	\$164 million	\$338.6	\$77.2	2,769

*includes port activities and companies working at port to move cargo and companies providing other services to trade coming through ports.

Source: author and Input-Output Model, US Department of Commerce.

Estimated Economic Impact: CAFTA Not Approved

As previously indicated the economic process is symmetrical. Not passing CAFTA will put certain Louisiana industries at a competitive disadvantage with other companies from different countries because the Central American countries are negotiating trade agreements with these countries. The economic impact on Louisiana depends on what happens to the export market of companies in Louisiana now doing business in Central American countries. One scenario can be projected that one or two industries might lose its or their entire market in Central America. For example, the chemical industry is estimated to have exports of \$57.1 million to Central American countries and the paper industry is estimated to have \$20.6 million of exports to these countries. What happens if all of this export business suddenly disappears?

The economic impact of such a reduction in the export market for chemicals and paper products is illustrated in Table 12. The chemical industry loses \$57.1 million in sales and the paper industry loses \$20.6 million in sales. Louisiana loses business sales of \$179.8 million along with the loss of 1,965 jobs and household earnings of \$45 million.

Table 12
Estimated Loss of Louisiana Chemical and Paper Exports
To Central American Countries Due to Not Passing CAFTA

Industry	Loss of Business by Specific Industries	Economic Impact due to Not Passing CAFTA		
		Sales (Millions of \$)	Earnings (Millions of \$)	Jobs
Chemical	\$57.1 million	\$147.8	\$33.3	1,452
Paper	\$20.6 million	\$32.0	\$11.7	513
Total	\$77.7 million	\$179.8	\$45.0	1,965

Source: author and Input-Output Model, US Department of Commerce.

Farm production is a major Louisiana export to Central American countries. If the trade environment deteriorates, farm exports could also decline. Another scenario would be for farm exports to decline along with the elimination of the chemical and paper exports from Louisiana to Central America. These economic impact estimates are illustrated in Table 13. A \$50 million reduction in farm exports to Central America results in overall state business activities to decline by \$129.5 million; jobs to decline by 1,275; and household earnings to fall by \$29.2 million. The decline in farm exports, along with the decline in exports of the chemical and paper industries, will lead to a decline in overall business activity of \$309.3 million; a loss of 3,240 jobs; and a loss of household earnings of \$74.2 million.

This is not a forecast of the economic consequences of not passing CAFTA to the state of Louisiana. Rather, it is an analysis suggesting that not passing CAFTA could have negative consequences on the Louisiana economy. Louisiana businesses currently provide commodities for the Central American market. These businesses are always in competition with businesses from other countries. If the US trade relationship with Central American countries does not

improve and the trade relationship of Central American countries with other foreign nations does improve, then US companies will likely lose all of some of its Central American market.

Table 13
Estimated Loss of Louisiana Farm, Chemical, and Paper Exports
To Central American Countries Due to Not Passing CAFTA

Industry	Loss of Business by Specific Industries	Economic Impact due to Not Passing CAFTA		
		Sales (Millions of \$)	Earnings (Millions of \$)	Jobs
Chemical	\$57.1 million	\$147.8	\$33.3	1,452
Paper	\$20.6 million	\$32.0	\$11.7	513
Farm Production	\$50 million	\$129.5	\$29.2	1,275
Total	\$127.7 million	\$309.3	\$74.2	3,240

Source: author and Input-Output Model, US Department of Commerce.

IV. Summary and Conclusions

Trade within the United States and with countries outside the United States is a common and accepted practice. People in Louisiana never question buying a book from Amazon.com or a shirt from L.L. Bean or hunting equipment from the Bass Pro Shop. We purchase cars made in Japan or Germany or Sweden; we purchase shoes made in Italy; we buy French wine; we purchase fruits and vegetables grown in many countries; we purchase coffee made in Central and South American countries; and, we purchase oil produced and oil byproducts made in foreign nations. Similarly, Louisianans sell products that they make to persons living in foreign countries. Agricultural producers sell cotton, rice, soybeans, and other crops to other countries. The chemical industry exports its commodities around the world. Movies made in Louisiana are exported around the world. Tourism requires visitors from other states and other countries. Trade is a fact of life in today's global economy.

Louisiana economic activity associated with expanded trade with Central America revolves around increased commodities coming through the various Louisiana ports and the increase in exports from Louisiana businesses to Central American consumers, businesses, and governments. Current economic activities in Louisiana related to trade with Central America suggest the economic base from which growth can occur. These economic activities include bovine meat and poultry cuts, farm production of cotton, rice, soybeans, and wheat, residues from oil based commodities, chemicals and plastics, paper products, and industrial machinery. These current economic activities also include the handling of commodities by the various Louisiana ports and the exports that are currently shipped to Central America by Louisiana companies.

Trade is an evolving economic activity. Companies quickly learn the market as trade rules change over time. All areas of the state could eventually prosper from the acceptance of CAFTA; however, certain areas with major economic activities associated with the commodities being exported to Central America and certain areas with ports that act as the intermediary between the exporters in the United States and importers in Central America and the exporters in Central America and importers in the United States should immediately feel the increased economic impact. Parishes and regions within Louisiana that can quickly improve their economic activity because of increased trade to Central America are spread from the south Louisiana parishes that are home to the major ports in the state and the chemical industry to the farm parishes in the northern parishes and in the southern and southwestern parishes. Chemical parishes include Ascension, Calcasieu, East Baton Rouge, and the New Orleans metropolitan area. Major cotton producing parishes include Catahoula, Franklin, Madison, Morehouse, and Tensas; major rice producing parishes include Acadia, Evangeline, Jeff Davis, Morehouse, and Vermilion; and major soybean producing parishes are Concordia, East Carroll, Madison, Pointe Coupee, and St. Landry. The benefits of trade are spread throughout the state.

The estimated impact of passing CAFTA on the Louisiana economy varies from new business sales of \$169.3 million to \$338.6 million, household earnings of \$38.6 million to \$77.2 million and new jobs of 1,385 to 2,769 new jobs. CAFTA will have a positive impact on business activity, household earnings, and jobs in Louisiana in poultry production, cotton, rice, and soybean production, paper product manufacturing, the manufacturing of chemicals and plastics, and the sale of major industrial equipment. These industries will, in turn, have a positive economic impact on the community in which they exist and for the state as a whole.

Another way of measuring the impact of CAFTA is to ask what happens if it does not pass. If the trade environment deteriorates for US companies providing exports to the Central American markets, farm, chemical, and paper exports would surely decline. A \$50 million reduction in farm exports from Louisiana to Central America along with the elimination of the chemical and paper exports from Louisiana to Central America would lead to the following consequences. The decline in farm exports, along with the decline in exports of the chemical and paper industries, will lead to a decline in overall business activity of \$309.3 million; a loss of 3,240 jobs; and a loss of household earnings of \$74.2 million.

It is typically easier to spot industries that may be forced to adjust their production because of expanded trade than it is to spot industries that will be able to expand their business activities because of the improved trade environment. This report has focused on those industries that will benefit from expanded trade opportunities with Central America. Trade with Central America affects cotton, corn, rice, and soybean producers in Louisiana; it affects bovine and poultry producers; it affects the chemical industry, the paper industry, the machinery industry, and other markets. Finally, it is important to note that the state of Louisiana and the local communities in the state also benefit from these increased economic activities.

Appendix A

**Free Trade with Central America
Summary Provided by
Office of the United States Trade Representative**

Appendix B

CAFTA – Agriculture Specific Fact Sheet

Appendix C

Maps of Parishes with Chemical Manufacturers And Cotton, Rice, and Soybean Production

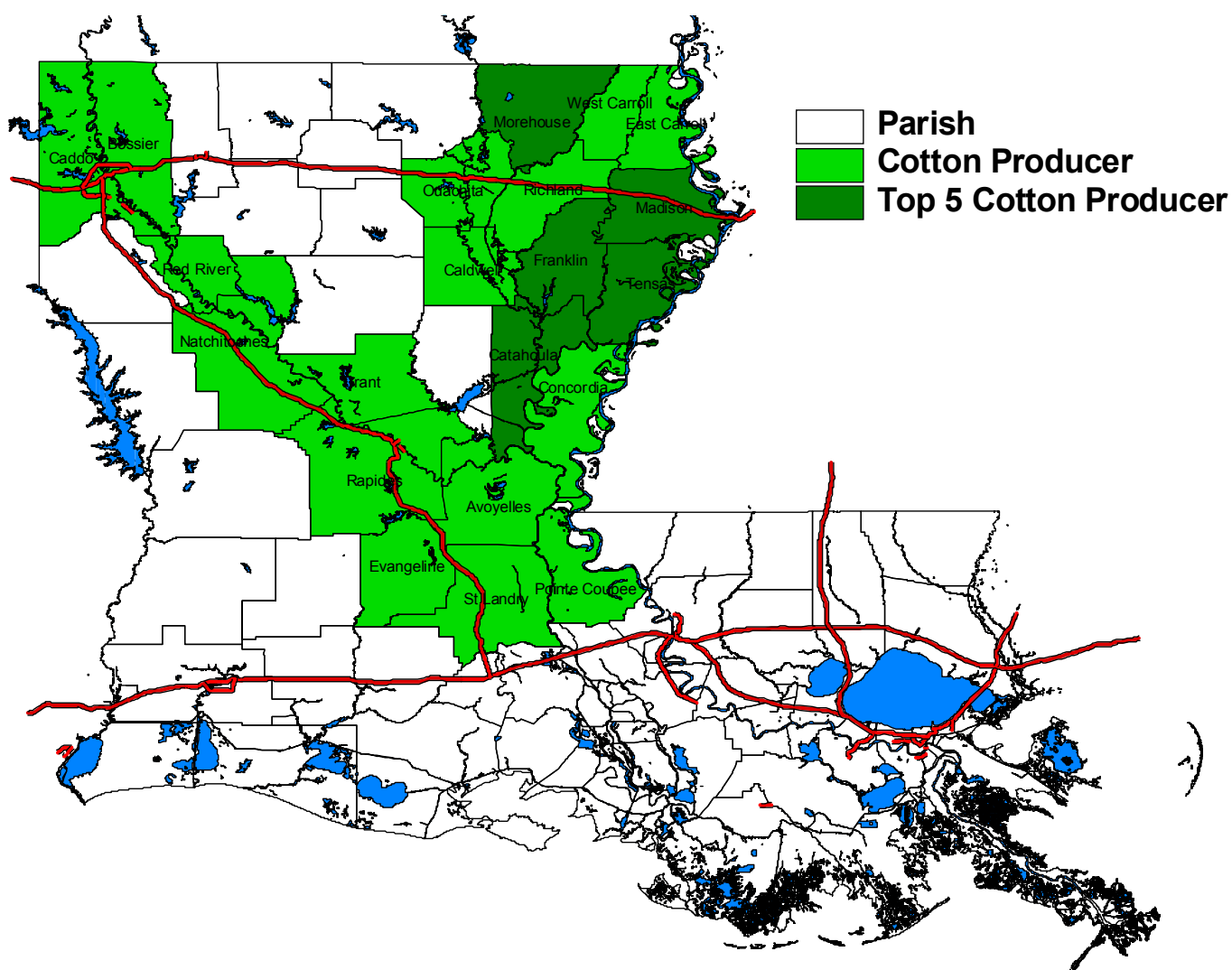
Map C.1. Cotton Production in Parishes in Louisiana

Parishes producing cotton:

Bossier, Caddo, Red River, Caldwell, Ouachita, East Carroll, Franklin, Madison, Morehouse, Richland, Tensas, West Carroll, Natchitoches, Avoyelles, Catahoula, Concordia, Evangeline, Grant, Pointe Coupee, Rapides, and St. Landry

Top 5 Cotton Producers:

Franklin, Madison, Morehouse, Tensas, Catahoula.



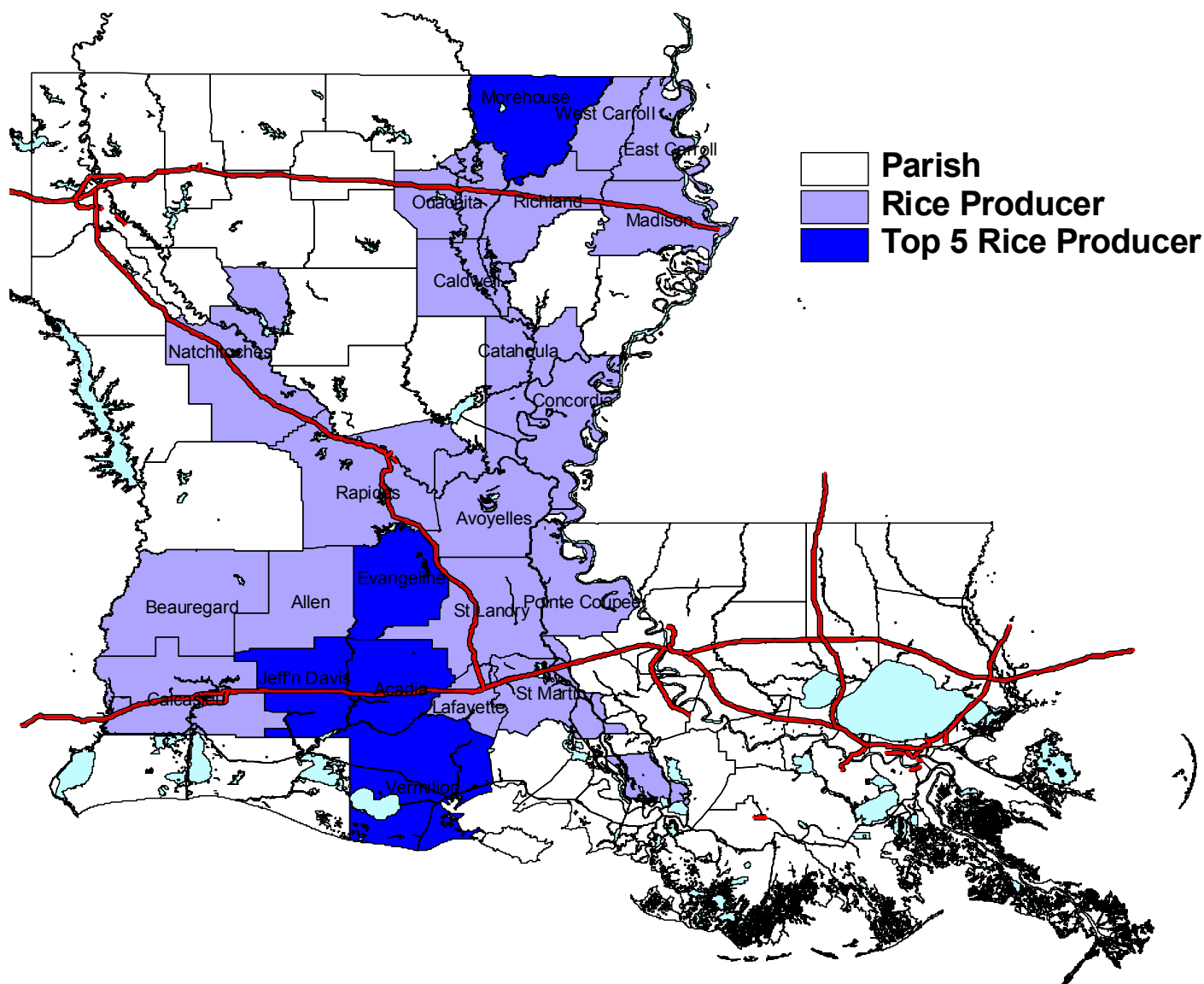
Map C.2. Rice Production in Parishes in Louisiana

Parishes producing rice:

Caldwell, Ouachita, East Carroll, Madison, Morehouse, Richland, West Carroll, Natchitoches, Avoyelles, Catahoula, Concordia, Evangeline, Pointe Coupee, Rapides, St. Landry, Acadia, Allen, Beauregard, Calcasieu, Jefferson Davis, Vermilion, Lafayette, and St. Martin

Top 5 Rice Producers:

Acadia, Vermilion, Jefferson Davis, Evangeline, and Morehouse



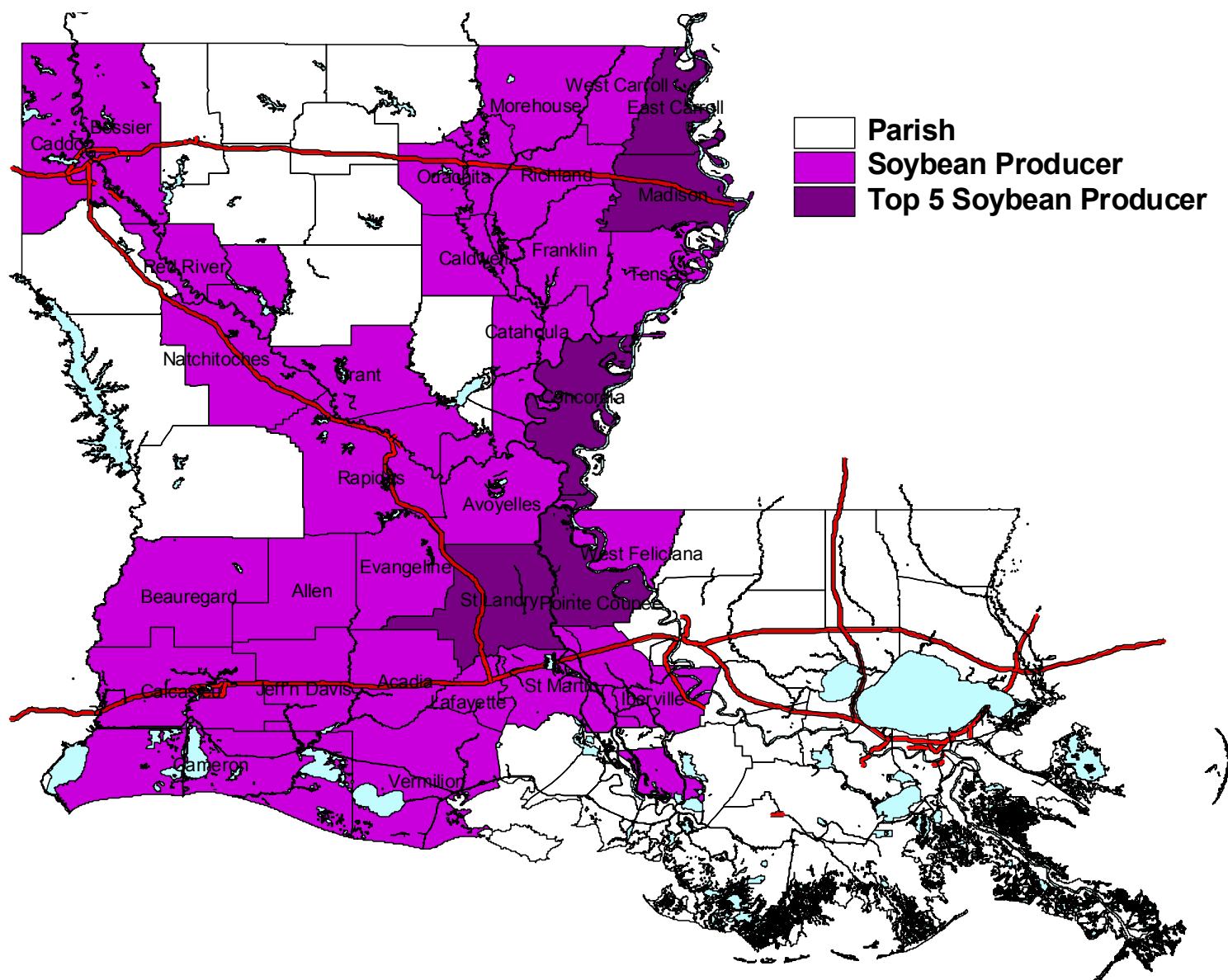
Map C.3. Soybean Production in Parishes in Louisiana

Parishes producing soybeans:

Bossier, Caddo, Red River, Caldwell, Ouachita, East Carroll, Franklin, Madison, Morehouse, Richland, Tensas, West Carroll, Natchitoches, Avoyelles, Catahoula, Concordia, Evangeline, Grant, Pointe Coupee, Rapides, St. Landry, West Feliciana, Acadia, Allen, Beauregard, Calcasieu, Cameron, Jefferson Davis, Vermilion, Iberville, Lafayette, St. Martin

Top 5 Soybean Producers:

East Carroll, Pointe Coupee, St. Landry, Madison, and Concordia.



Map C.4. Chemical Manufacturing in Parishes in Louisiana

Parishes with chemical manufacturers:

Calcasieu, East Baton Rouge, West Baton Rouge, Ascension, Iberville, St. James, St. John the Baptist, St. Charles, Jefferson, Orleans, St. Bernard

